

FLATHEAD VALLEY COMMUNITY COLLEGE

FLATHEAD COUNTY, MONTANA

Fiscal Year Ended June 30, 2012

AUDIT REPORT

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

FLATHEAD VALLEY COMMUNITY COLLEGE

FLATHEAD COUNTY, MONTANA

Fiscal Year Ended June 30, 2012

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FLATHEAD VALLEY COMMUNITY COLLEGE

FLATHEAD COUNTY, MONTANA

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FLATHEAD VALLEY COMMUNITY COLLEGE

FLATHEAD COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2012

BOARD OF TRUSTEES

Robert Nystuen	Chairperson
John Phelps	Vice Chairperson
Ralene Sliter	Trustee
Shannon Lund	Trustee
Tom McElwain	Trustee
Mark Holston	Trustee
Thomas Harding	Trustee

DISTRICT OFFICIALS

Jane Karas	President
Monica Settles	District Clerk

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2012

Flathead Valley Community College (FVCC) is dedicated to improving lives through learning. FVCC is located in Kalispell and Libby, Montana.

Reading the Annual Financial Report

A requirement of GASB 35 is the Management Discussion and Analysis (MD&A) of the annual financial statements. This section includes narrative descriptions of the FVCC financial condition, results of operations and cash flows. The MD&A's purpose is to aid readers in understanding the accompanying financial statements through analysis of FVCC's financial activities based on currently known facts and conditions. This MD&A should be read in conjunction with the accompanying financial statements and footnote disclosures.

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial activities of FVCC for fiscal year ended June 30, 2012.

How the Financial Statements Relate to Each Other

The financial statements included are the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The financial statements are presented using the accrual basis of accounting. The accrual basis of accounting simply means that the transaction is recognized (recorded) when an exchange takes place. An exchange can be defined as a situation in which each party receives and gives something of equal value. For example, a student registers for a class on July 1st and sets up a payment plan to pay tuition and fees in full by July 31st. On July 1st, there is no cash presented, however, because the registration (exchange) takes place (reserved seat in class equals commitment to pay), revenue is recognized on July 1st. An offsetting student receivable is set up to track the amount the student owes. As the student pays for the tuition and fees, the receivable is reduced by the same increment.

The most basic relationships between the statements are described below. The Statement of Net Assets presents a snap shot of the financial condition of FVCC on June 30. The Statement of Revenues, Expenses, and Changes in Net Assets presents the results of activities for FVCC throughout the fiscal year. The Statement of Cash Flows indicates where and how cash was utilized and provided in order to operate throughout the fiscal year.

Statement of Net Assets

Assets and liabilities are presented in a classified format. This format differentiates between current and non-current assets and liabilities. Net Assets (assets less liabilities) are presented in three categories applicable to FVCC:

- Unrestricted
- Restricted – Expendable
– Nonexpendable
- Invested in Capital Assets, Net of Related Debt

This statement is one way of measuring FVCC's financial position at the end of the fiscal year. Improvements or deterioration of financial position can be measured over time by analyzing the change in net assets.

The following is a summary of the Statement of Net Assets for each fiscal year:

CONDENSED STATEMENT OF NET ASSETS

	At 6/30/12	At 6/30/11	At 6/30/10	At 6/30/09
Total Current Assets	\$14,278,164	\$12,386,769	\$11,294,682	\$9,089,821
Total Non-Current Assets	\$27,910,990	\$27,699,623	\$27,483,055	\$28,054,403
TOTAL ASSETS	\$42,189,154	\$40,086,392	\$38,777,737	\$37,144,224
Total Current Liabilities	\$3,337,031	\$3,102,103	\$3,624,025	\$3,972,408
Total Non-Current Liabilities	\$16,227,530	\$16,639,130	\$17,433,755	\$17,641,212
TOTAL LIABILITIES	\$19,564,561	\$19,741,233	\$21,057,780	\$21,613,620
Invested in capital, net of related debt	\$12,403,090	\$11,180,629	\$9,950,096	\$9,224,584
Restricted-expendable	\$684,472	\$665,515	\$654,205	\$992,799
Unrestricted	\$9,537,031	\$8,499,015	\$7,115,656	\$5,313,221
TOTAL NET ASSETS	\$22,624,593	\$20,345,159	\$17,719,957	\$15,530,604

Information significant to reading the Statement of Net Assets:

- The Net Assets Invested in capital, net of related debt is primarily made up of the value of the buildings and the land held by the College and the associated bond indebtedness.
- Restricted-expendable Net Assets were held primarily in the grant, scholarship and bond funds.

- Unrestricted Net Assets is made up of operating activities, auxiliary activities, and also numerous designated activities which include:

1. **Student Activity Fee** – Any change in the student activity fee must be approved by a majority of the voting students, and approved by the Board of Trustees. The Student Activity Fee is deposited into an agency account and is administered by the Student Senate for the purpose of supporting programs, services, and activities for College students. A portion of the Student Activity Fee is specifically designated for the athletics programs of the College.
2. **Laboratory Fees** – Laboratory fees are intended to augment, not replace, basic operating expenses. They may be assessed and used for:
 - a. Consumable supplies (including computer software)
 - b. Special facility rental or services
 - c. Unusual vehicle costs

Laboratory fees are intended for use during the semester collected. The amount will be recommended by the instructor through the division chair to the appropriate administrator, with approval beginning in Business Services and final approval granted by the President.

Laboratory fees are not intended for:

- a. Equipment
 - b. Continuing personnel costs
 - c. Roll-over (accumulation of funds for a future purchase)
3. **Building Fees** – Building fees shall be collected specifically for the purpose of purchasing or selling land, installing major utilities, infrastructure requirements, completing major landscaping, purchasing or selling buildings, lease-purchasing buildings, constructing buildings, remodeling buildings, demolishing buildings, constructing parking lots, constructing roadways, constructing other campus improvements, and purchasing architectural and engineering services related to these buildings fee purposes.
4. **Computer Fees** – Computer fees shall be collected for the purchase or lease of computer equipment, software, maintenance or related items which will benefit the instructional programs. Expenditures may not be made for recurring personnel services.
5. **Equipment Fees** - Equipment fees shall be collected for the purchase, lease or maintenance of equipment and other related expenditures which will provide a primary benefit to the educational programs including the library.
6. **Grounds Maintenance Fee** – Grounds Maintenance Fees shall be collected for the construction, maintenance and safety of hard surface areas on the campus.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets reflects the results of operations for each fiscal year, distinguishing between operating and non-operating revenues and expenses as defined by GASB 35. GASB 35 has defined appropriations (state and local) as non-operating revenues, thus, FVCC is showing an operating loss \$10,034,694 for FY2012. Once the appropriations dollars are considered and gain on sale of capital assets, the results become a gain in Net Assets of \$2,279,434 for FY2012. Inclusion of state and local appropriations is a more useful measure of FVCC regular activities.

	For Fiscal Year Ended 6/30/12	For Fiscal Year Ended 6/30/11	For Fiscal Year Ended 6/30/10	For Fiscal Year Ended 6/30/09
Operating Revenues	\$ 25,172,461	\$ 26,550,803	\$ 23,918,194	\$ 15,600,085
Operating Expenses	(35,207,155)	(34,776,148)	(32,199,309)	(24,465,591)
Operating Loss	\$(10,034,694)	\$ (8,225,345)	\$ (8,281,115)	\$ (8,865,506)
Net Nonoperating Revenues/(Expenses)	11,682,829	10,837,290	10,475,031	9,282,366
Transfers	7,896	13,257	(4,563)	-
Gain on sale of Capital Assets	623,403	-	-	-
Change in Net Assets	\$ 2,279,434	\$ 2,625,202	\$ 2,189,353	\$ 416,860
Beginning Net Assets	\$ 20,345,159	\$ 17,719,957	\$ 15,530,604	\$ 15,113,744
Prior Period Adjustments	-	-	-	-
Net Assets – end of year	<u>\$ 22,624,593</u>	<u>\$ 20,345,159</u>	<u>\$ 17,719,957</u>	<u>\$ 15,530,604</u>

Information regarding revenue and expense items:

- Operating Revenue: Operating Revenues for FY2012 are \$25,172,461 compared to \$26,550,803 for FY2011. These results consisted of declining Tuition and Fee Revenues and lower Federal Grant Revenue as compared to the same revenue items in FY2011.
- Operating Expense: Operating Expenses for FY2012 are \$35,207,155 versus \$34,776,148 for FY2011. Contributions to the operating expense included increased Depreciation and Personal Services expenses as compared to the same expense items in FY2011.
- Non Operating Revenues (Expenses): Non Operating Revenues for FY2012 are \$11,682,829 and \$10,837,290 for FY2011. This total included increased State and Local Appropriation revenue, in addition to a decrease in Debt Service Expense as compared to the same Non Operating Revenue item for FY2011.
- Prior Period Adjustment FY2012: None.

Statement of Cash Flows

The Statement of Cash Flows summarizes where cash was provided or utilized throughout the fiscal year. Cash flows are presented in operating activities, non-capital financing activities, capital and related financing activities and investing activities. The sum of these four categories is the net change in cash, which was an increase of \$2,061,152 for FY2012. Cash used by Operating activities increased from \$ 6,313,679 in FY12 to \$7,411,036 in FY12. This result is due to decreased Tuition, Fee, and Federal grant revenue, offset by an increasing use of cash for Scholarships and Payroll compared to these items in FY11.

	For Fiscal Year Ended 6/30/12	For Fiscal Year Ended 6/30/11	For Fiscal Year Ended 6/30/10	For Fiscal Year Ended 6/30/09
Cash Provided (Used) by:				
Operating Activities	\$ (7,411,036)	\$ (6,313,679)	\$ (7,680,700)	\$ (6,498,686)
Noncapital Financing Activities	12,109,937	11,249,583	10,715,537	9,618,460
Capital and Related Financing Activities	(2,783,722)	(3,331,307)	(2,775,610)	(2,673,526)
Investing Activities	<u>145,973</u>	<u>177,721</u>	<u>170,571</u>	<u>246,105</u>
Net Increase (Decrease) in Cash	\$ 2,061,152	\$ 1,782,318	\$ 429,798	\$ 692,353
Cash and Cash Equivalents, beginning of year	<u>10,454,074</u>	<u>8,671,756</u>	<u>8,241,958</u>	<u>7,549,605</u>
Cash and Cash Equivalents, end of year	<u>\$ 12,515,226</u>	<u>\$ 10,454,074</u>	<u>\$ 8,671,756</u>	<u>\$ 8,241,958</u>

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Flathead Valley Community College
Flathead County
Kalispell, Montana

We have audited the accompanying financial statements of the business-type activities, the discretely presented component unit, and the aggregate remaining fund information of Flathead Valley Community College, Flathead County, Montana, as of and for the year ended June 30, 2012, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Flathead Valley Community College management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the College's discretely presented component unit, which has a year end of December 31, 2011. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amount included for the audited component unit of the college, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the audit of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit, and the aggregate remaining fund information of the Flathead Valley Community College, Flathead County, Montana, as of June 30, 2012, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2013, on our consideration of the Flathead Valley Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding for other post employment benefits other than pensions on pages 2 through 6, and 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Student Financial Aid Modified Statement of Cash Receipts and Disbursements and Schedule of Expenditures of Student Financial Assistance Programs are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and we express no opinion on them. The accompanying Schedule of Full Time Equivalent and the Functional Classification of Operating Expenses are presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The accompanying schedule of expenditures of federal awards for the fiscal years ended June 30, 2011 and June 30, 2012 are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Denning, Downey and Associates, CPAs, P.C.

March 29, 2013

Flathead Valley Community College, Flathead County, Montana
Statement of Net Assets
June 30, 2012

ASSETS

Current assets:

Cash and investments	\$ 11,840,226
Taxes and assessments receivable, net	349,382
Grants receivable	879,550
Tuition Receivable - Net	177,378
Accounts receivable - net	525,729
Other assets	230,526
Inventories	275,373
Total current assets	<u>\$ 14,278,164</u>

Noncurrent assets:

Restricted cash and investments	\$ 675,000
Bond issuance costs	146,684
Capital assets - land	2,495,200
Capital assets - construction in progress	484,244
Capital assets - depreciable, net	24,109,862
Total noncurrent assets	<u>\$ 27,910,990</u>
Total assets	<u><u>\$ 42,189,154</u></u>

LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities	\$ 585,858
Deposits payable	192,608
Interest payable	8,923
Accrued payroll	154,416
Deferred revenue - tuition and fees	769,755
Deferred revenue - grants	59,213
Bond premium	101,201
Current portion of early retirement liabilities	17,063
Current portion of long-term capital liabilities	1,027,295
Current portion of compensated absences payable	420,699
Total current liabilities	<u>\$ 3,337,031</u>

Noncurrent liabilities:

Noncurrent portion of long-term capital liabilities	\$ 13,658,921
Noncurrent portion of compensated absences	890,250
Noncurrent portion of early retirement liabilities	22,041
Other post employment benefits	1,656,318
Total noncurrent liabilities	<u>\$ 16,227,530</u>
Total liabilities	<u><u>\$ 19,564,561</u></u>

NET ASSETS

Invested in capital assets, net of related debt	\$ 12,403,090
Restricted for debt service	675,000
Restricted for scholarships	9,472
Unrestricted	9,537,031
Total net assets	<u>\$ 22,624,593</u>
Total liabilities and net assets	<u><u>\$ 42,189,154</u></u>

See accompanying Notes to the Financial Statements

Flathead Valley Community College, Flathead County, Montana
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2012

OPERATING REVENUES

Tuition and fees (net of scholarship allowances of \$ 725,714)	\$ 7,710,593
Federal grants and contracts	13,370,818
State grants and contracts	688,021
Private and local grants and contracts	813,333
Indirect cost recoveries	249,198
Seminars and workshops (net of waivers of \$0)	54,206
Auxiliary activities	1,925,712
Other operating revenues	360,580
Total operating revenues	<u>\$ 25,172,461</u>

OPERATING EXPENSES

Personal services	\$ 15,084,883
Travel	280,934
Supplies	2,418,061
Contracted services	2,245,704
Bond issue expense	10,903
Bad debt expense	142,318
Scholarships and grants	12,313,245
Noncapitalized equipment (under \$5000)	758,220
Other operating expenses	272,139
Depreciation expense	1,680,748
Total operating expenses	<u>\$ 35,207,155</u>
Operating income (loss)	<u>\$ (10,034,694)</u>

NON-OPERATING REVENUES (EXPENSES)

State appropriations	\$ 6,799,062
Statewide University Millage	421,104
Local appropriations	4,839,632
Interest revenue	145,973
Debt service interest expense	(522,942)
Total non-operating revenues (expenses)	<u>\$ 11,682,829</u>
Income (loss) before contributions and transfers	\$ 1,648,135
Transfers to fiduciary funds	7,896
Gain on sale of capital assets	623,403
Change in net assets	<u>\$ 2,279,434</u>
Net Assets - Beginning of the year	\$ 20,345,159
Net Assets - End of the year	<u>\$ 22,624,593</u>

See accompanying Notes to the Financial Statements

Flathead Valley Community College
Statement of Cash Flows
For the fiscal year ended June 30, 2012

	Activities
	Activities
Cash flows from operating activities:	
Cash received from tuition and fees	\$ 8,042,055
Cash received from federal grants and contracts	13,081,134
Cash received from grants and contracts	1,501,354
Cash received from seminars and workshops	54,206
Cash received from auxiliary activities	1,925,712
Cash received from miscellaneous sources	609,778
Cash payments to suppliers	(3,458,791)
Cash payment for contracted services	(2,246,238)
Cash payment for scholarships and grants	(12,313,245)
Cash payments to employees	(14,607,001)
Net cash provided (used) by operating activities	<u>\$ (7,411,036)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	\$ (1,227,385)
Principal paid on debt	(1,028,596)
Interest paid on debt	(527,741)
Net cash provided (used) by capital and related financing activities	<u>\$ (2,783,722)</u>
Cash flows from non-capital financing activities:	
Cash received from state appropriations	\$ 6,799,062
Cash received from local appropriations	5,318,771
Cash paid to other funds	(7,896)
Net cash provided (used) from non-capital financing activities	<u>\$ 12,109,937</u>
Cash flows from investing activities:	
Interest on investments	\$ 145,973
Net cash provided (used) by investing activities	<u>\$ 145,973</u>
Net increase (decrease) in cash and cash equivalents	\$ 2,061,152
Cash and cash equivalents at beginning	<u>10,454,074</u>
Cash and cash equivalents at end	<u>\$ 12,515,226</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (10,034,694)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	1,680,748
Changes in assets and liabilities:	
Grants receivable	(285,031)
Accounts receivable	357,464
Inventory	24,443
Other assets	(21,057)
Accounts payable	278,080
Compensated absences payable	151,888
Accrued wages payable	1,924
Deferred revenue - tuition and fees	(74,292)
Deferred revenue - grants	(4,653)
Deposits payable	190,608
Other Post Employment Benefits payable	323,536
Net cash provided (used) by operating activities	<u>\$ (7,411,036)</u>

See accompanying Notes to the Financial Statements

Flathead Valley Community College, Flathead County, Montana
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	Private Purpose Trust Funds
ASSETS	
Cash and short-term investments	\$ 249,099
Total assets	<u>\$ 249,099</u>
LIABILITIES	
Accounts payable	\$ 2,885
Deposits payable	11,125
Total liabilities	<u>\$ 14,010</u>
NET ASSETS	
Assets held in trust	<u>\$ 235,089</u>

See accompanying Notes to the Financial Statements

Flathead Valley Community College, Flathead County, Montana
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2012

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Contributions:	
Contributions from private sources	\$ 56,914
Misc. Revenue	26,581
State Revenue	1,513
Agency Revenue (net of Waivers \$ 701)	107,613
Total additions	\$ <u>192,621</u>
 DEDUCTIONS	
Student activities	\$ 164,963
Transfers out	7,896
Total deductions	\$ <u>172,859</u>
Change in net assets	\$ <u>19,762</u>
 Net Assets - Beginning of the year	 \$ 215,327
 Net Assets - End of the year	 \$ <u><u>235,089</u></u>

See accompanying Notes to the Financial Statements

**FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION
STATEMENT OF FINANCIAL POSITION**

DECEMBER 31, 2011

	<u>2011</u>
<u>ASSETS</u>	
CURRENT ASSETS	
Cash and cash equivalents	\$ 2,543,548
Investments	3,676,099
Pledges receivable	3,515,997
Other current assets	<u>111,276</u>
TOTAL ASSETS	<u>\$ 9,846,920</u>
<u>LIABILITIES AND NET ASSETS</u>	
LIABILITIES	
Accounts payable and other liabilities	\$ 132,247
Foundation scholarships payable	225,674
Other scholarships payable	246,157
Deferred gift liability	<u>97,982</u>
TOTAL LIABILITIES	<u>702,060</u>
NET ASSETS	
Unrestricted	277,519
Temporarily restricted	6,212,911
Permanently restricted	<u>2,654,430</u>
TOTAL NET ASSETS	<u>9,144,860</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 9,846,920</u>

See Notes to the Financial Statements

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT				
Pledges and other public support	\$ 70,649	\$ 4,977,885	\$ 270,839	\$5,319,373
In-kind donations	212,574	9,250	-	221,824
Net realized and unrealized investment gains	(285)	(145,968)	-	(146,253)
Investment income	95	104,263	-	104,358
Net assets released from restriction	<u>510,775</u>	<u>(510,775)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND OTHER SUPPORT	<u>793,808</u>	<u>4,434,655</u>	<u>270,839</u>	<u>5,499,302</u>
ALLOCATIONS AND EXPENSES				
Program services				
Scholarship awards	254,458	-	-	254,458
Program disbursements	69,997	-	-	69,997
Other program expenses	198,769	-	-	198,769
Prizes	19,990	-	-	19,990
Supporting services				
Professional fees	15,850	-	-	15,850
Investment management fees	24,147	-	-	24,147
Management and general	<u>139,403</u>	<u>-</u>	<u>-</u>	<u>139,403</u>
TOTAL EXPENSES	<u>722,614</u>	<u>-</u>	<u>-</u>	<u>722,614</u>
CHANGES IN NET ASSETS	71,194	4,434,655	270,839	4,776,688
NET ASSETS – BEGINNING OF YEAR	<u>206,325</u>	<u>1,778,256</u>	<u>2,383,591</u>	<u>4,368,172</u>
NET ASSETS – END OF YEAR	<u>\$ 277,519</u>	<u>\$ 6,212,911</u>	<u>\$ 2,654,430</u>	<u>\$9,144,860</u>

See Notes to the Financial Statements

**FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION
STATEMENT OF CASH FLOW**

YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Changes in net assets	\$ 4,776,688
Adjustments to reconcile net income (loss) to net assets provided (used) by operating activities:	
(Gain) loss on investments	146,253
Change in operating assets and liabilities:	
(Increase) decrease in assets:	
Pledges and grants receivable	(3,391,038)
Other current assets	(29,207)
(Increase) decrease in liabilities:	
Accounts payable	100,582
Scholarships payable	<u>66,774</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>1,670,052</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Payments for purchase of investments	<u>(240,376)</u>
NET INCREASE (DECREASE) IN CASH	1,429,676
CASH – BEGINNING OF YEAR	<u>1,113,872</u>
CASH – END OF YEAR	\$ <u><u>2,543,548</u></u>

See Notes to the Financial Statements

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The College complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

Financial Reporting Entity

In determining the financial reporting entity, the College complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, and includes all component units of which the College appointed a voting majority of the units' board; the College is either able to impose its will on the unit or a financial benefit or burden relationship exists. In addition, the College complies with GASB statement No. 39 Determining Whether Certain Organizations Are Component Units which relates to organizations that raise and hold economic resources for the direct benefit of the College.

Primary Government

The College was established under Montana law to provide post-secondary educational services. Based on the criteria for determining the reporting entity (separate legal entity and financial or fiscal dependency on other governments) the College is a primary government as defined by GASB Code Sec. 2100 and has a component unit.

Discretely Presented Component Unit

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. The component unit listed below has a fiscal year ending December 31, 2011. The College has the following discretely presented component unit:

Flathead Valley Community College Foundation

Basis of Presentation, Measurement Focus and Basis of Accounting.

Proprietary Funds:

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenues for enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the College's policy to use restricted resources first, then unrestricted resources as they are needed. The College has only one fund other than Fiduciary Funds.

Fiduciary Funds

Fiduciary funds presented using the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans). The required financial statements are a statement of fiduciary net assets and a statement of changes in fiduciary net assets. The fiduciary funds are:

Private-purpose trust funds – To report all other trust arrangements under which the principal and income benefit individuals, private organizations, or other governments.

The College reports the student activities funds as fiduciary funds as they represent assets held in a trust capacity for the student activities and therefore cannot be used to support the College's own programs.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

The College's cash is held by the County Treasurer, except petty cash, and pooled with other County cash. With the College cash that is not necessary for short-term obligations, the College participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing College and fund on a pro rata basis. The County's investment portfolio as of June 30, 2012, consisted of certificates of deposit, savings accounts, and U.S. Government Securities.

The College does not own specific identifiable investment securities in the pool; therefore, is not subject to categorization. Information regarding investment risk, collateral, security, and fair values for Flathead County deposits and investments is available from Flathead County Treasurer's office, 800 S. Main Street, Kalispell, Montana 59901. The Flathead County external investment pool is not rated.

Authorized investments allowed by Section 20-9-213, MCA, include savings or time deposits in a state or national bank, building or loan association, or credit union insured by the FDIC or NCUA located in the state; repurchase agreements; and the State Unified Investment Program. Further, Section 7-6-202, MCA, authorized investments in U. S.

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

government treasury bills, notes, bonds, U.S. Treasury obligations, treasury receipts, general obligations of certain agencies of the United States, and U.S. government security money market fund if the fund meets certain conditions.

The College maintains cash-on-hand (petty cash) for the operating locations accepting cash transactions. The total cash-on-hand at year-end was \$6,200.

For purposes of the Statement of Cash Flows, cash equivalents include all cash and investments.

NOTE 3. RECEIVABLES

Taxes

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts.

Property tax levies are set in August, in connection with the budget process, and are based on taxable values listed as of January 1 for all property located in the District. Taxable values are established by the Montana Department of Revenue, and a revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

Real property taxes are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, taxes become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% a month plus a penalty of 2%. Real property on which taxes remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is to be seized and sold after the taxes become delinquent.

Student Accounts Receivable

An allowance for uncollectible accounts has been established for Student accounts receivable. As of June 30, 2012 total student accounts receivables totaled \$925,417 with an allowance for uncollectible accounts of \$748,038. The net balance of \$177,379 is reported as Tuition Receivable – Net on the Statement of Net Assets.

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 4. CAPITAL ASSETS

The College's assets are capitalized at historical cost or estimated historical cost. College policy has set the capitalization threshold for reporting capital assets based on the type of capital asset. Items costing \$5,000 or more and having a useful life of more than one year will be capitalized and depreciated over the useful life of the item. Buildings and building improvements costing more than \$25,000, any land purchases regardless of cost, land improvements and infrastructure costing \$10,000 or more, and library books treated as a collection is 3% or more of total capital assets reported by the Flathead Valley Community College are capitalized. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Information Technology	10-20 years
Buildings.....	40 years
Building Improvements	40 years
Equipment.....	5-20 years
Library	10 years
Land Improvements	20 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the College has included the value of all infrastructure into the Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

A summary of changes in capital assets follows:

	Balance June 30, 2011	Additions	Retirements	Transfers	Balance June 30, 2012
Capital assets not being depreciated:					
Land	\$ 2,579,863	\$ -	\$ (172,630)	\$ 87,967	\$ 2,495,200
Construction in Progress	<u>162,023</u>	<u>476,604</u>	<u>-</u>	<u>(154,383)</u>	<u>484,244</u>
Total capital assets not being depreciated	<u>\$ 2,741,886</u>	<u>\$ 476,604</u>	<u>\$ (172,630)</u>	<u>\$ (66,416)</u>	<u>\$ 2,979,444</u>
Other Capital Assets:					
Buildings	\$ 25,439,655	\$ 1,133,204	\$ -	\$ 66,416	\$ 26,639,275
Improvements Other than Buildings	2,011,924	-	-	-	2,011,924
Machinery and Equipment	4,298,484	220,988	(121,970)	-	4,397,502
Library Inventory	394,447	47,659	(16,732)	-	425,374
Leasehold Improvements	365,586	189,459	-	-	555,045
Information Technology	<u>903,549</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>903,549</u>
Total other Capital Assets at Historical cost	<u>\$ 33,413,645</u>	<u>\$ 1,591,310</u>	<u>\$ (138,702)</u>	<u>\$ 66,416</u>	<u>\$ 34,932,669</u>
Less Accumulated Depreciation	<u>\$ (9,252,591)</u>	<u>\$(1,680,748)</u>	<u>\$ 110,532</u>	<u>-</u>	<u>\$ (10,822,807)</u>
Total	<u>\$ 26,902,940</u>	<u>\$ 387,166</u>	<u>\$ (200,800)</u>	<u>\$ -</u>	<u>\$ 27,089,306</u>

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 5. LONG TERM DEBT OBLIGATIONS

In the financial statements, outstanding debt is reported as liabilities.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2012, the following changes occurred in liabilities reported in long-term debt:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012	Due within one year
General Obligation Bonds	\$ 13,410,000	\$ -	\$ (650,000)	\$ 12,760,000	\$ 675,000
Contracted Debt	42,478	-	(42,478)	-	-
Compensated Absences	1,159,061	151,888	-	1,310,949	420,699
Intercap Loans	2,262,334	-	(336,118)	1,926,216	352,295
OPEB Liability *	1,315,719	340,599	-	1,656,318	-
Early Retirement Liability *	55,633	-	(16,529)	39,104	17,063
Total	<u>\$ 18,245,225</u>	<u>\$ 492,487</u>	<u>\$ (1,045,125)</u>	<u>\$ 17,692,587</u>	<u>\$ 1,465,057</u>

* See Note 7

General Obligation Bonds

The College issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the College. General obligation bonds outstanding as of June 30, 2012 were as follows:

Purpose	Origination Date	Interest Rate	Term	Maturity Date	Principal Amount	Balance June 30, 2012
Series 2005	03/15/05	3.5-5.0%	20 yrs	07/01/25	\$ 9,900,000	\$ 7,785,000
Series 2006	07/01/06	3.75-5.0%	20 yrs	07/01/26	<u>5,916,000</u>	<u>4,975,000</u>
Total					<u>\$15,816,000</u>	<u>\$12,760,000</u>

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

Annual requirement to amortize debt:

For Fiscal Year Ended	<u>Principal</u>	<u>Interest</u>
2013	\$ 675,000	\$ 495,143
2014	700,000	470,906
2015	725,000	445,770
2016	755,000	419,731
2017	780,000	389,181
2018	815,000	357,606
2019	845,000	327,709
2020	880,000	296,022
2021	920,000	262,743
2022	960,000	227,350
2023	1,000,000	190,238
2024	1,040,000	150,607
2025	1,090,000	109,007
2026	1,135,000	64,722
2027	<u>440,000</u>	<u>18,040</u>
Total	<u>\$12,760,000</u>	<u>\$ 4,224,775</u>

Interkap Loans

Interkap loans have variable interest rates. Interest rates are subject to change annually. Interest rates to the borrower are adjusted on February 16th of each year and are based on a spread over the interest paid on one-year term, tax-exempt bonds which are sold to fund the loans.

Interkap loans outstanding as of June 30, 2012 were as follows:

<u>Draw Number</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2012</u>
2112-01	07/20/2007	1.25-4.250%	10 yrs	02/15/2017	\$ 185,669	\$ 107,427
2112-02	08/10/2007	1.25-4.850%	10 yrs	02/15/2017	586,810	341,511
2112-03	09/07/2007	1.25-4.850%	10 yrs	02/15/2017	515,180	298,333
2112-04	09/14/2007	1.25-4.850%	10 yrs	02/15/2017	252,765	146,088
2112-05	10/12/2007	1.25-4.850%	10 yrs	02/15/2017	633,102	362,781
2112-06	11/02/2007	1.25-4.850%	10 yrs	02/15/2017	275,452	167,508
2112-07	11/16/2007	1.25-4.850%	10 yrs	02/15/2017	143,761	87,424
2112-08	01/11/2008	1.25-4.850%	10 yrs	02/15/2017	67,567	40,716
2112-09	02/08/2008	1.25-4.850%	10 yrs	02/15/2017	146,302	88,809
2112-10	04/18/2008	1.25-4.250%	10 yrs	02/15/2017	106,573	67,254
2112-11	05/03/2008	1.25-4.250%	10 yrs	02/15/2017	330,804	208,756
2112-12	05/30/2008	1.25-4.250%	10 yrs	02/15/2017	<u>14,795</u>	<u>9,609</u>
					<u>\$3,258,780</u>	<u>\$ 1,926,216</u>

FLATHEAD VALLEY COMMUNITY COLLEGE
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2012

Annual requirement to amortize debt:

For Fiscal Year Ended	<u>Principal</u>	<u>Interest</u>
2013	\$ 352,295	\$ 24,078
2014	369,252	19,674
2015	386,525	15,058
2016	404,931	10,227
2017	<u>413,213</u>	<u>5,165</u>
Total	<u>\$ 1,926,216</u>	<u>\$ 74,202</u>

Compensated Absences

Non-teaching College employees earn vacation leave ranging from fifteen to twenty-four days per year depending on the employee's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. Sick leave is earned at a rate of one day per month for non-teaching employees and at the rate of one day per month for the length of the full-time teaching contract. Upon retirement or termination, employees are paid for 100% of unused vacation leave and 25% of unused sick leave. Upon termination, all payments are made at the employee's current rate of pay.

NOTE 6. STATE-WIDE RETIREMENT PLANS

The College participates in two cost-sharing, multiple-employer defined benefit pension plans. The plans provide retirement, death, and disability benefits to plan members and beneficiaries with amounts determined by the State. Teaching employees are covered by Montana Teachers Retirement Plan (TRS), and substantially all other College employees are covered by the Montana Public Employees Retirement System (PERS). The plans are established by Montana law and administered by the State of Montana. The plans are cost-sharing multiple-employer defined benefit plans that provide retirement, disability and death benefits to plan members and beneficiaries, with amounts determined by the State. However, PERS members may have chosen the defined contribution retirement plan. Under this plan it puts the employee in control of investments options and their retirement is based upon the cash in their investment account.

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2012, were:

	<u>PERS**</u>	<u>TRS</u>
Employer	7.07%	7.47%
Employee	6.90%*	7.15%
State	0.10%	2.49%

* For PERS members hired after 7/1/2011 that rate is 7.9%

** For the defined contribution plan all rates are the same except only 4.19% of the employer amount is added to the individuals account

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

The State contribution qualifies as an on-behalf payment. These amounts have not been recorded in the College's financial statements and were considered immaterial.

Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling:

1. Public Employees Retirement Division, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.
2. Teachers Retirement System, P.O. Box 200319, Helena, Montana 59620-0139 Phone: 1-406-444-3134.

The College's contributions for the years ended June 30, 2010, 2011, and 2012, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>	<u>TRS</u>
2010	\$337,206	\$316,358
2011	\$348,608	\$334,909
2012	\$368,895	\$359,043

NOTE 7. OTHER POST EMPLOYMENT BENEFITS

Flathead Valley Community College (FVCC) is a part of the Montana University System Employee Group Benefits Plan (MUSEGBP). FVCC is one of 13 active participants in a cost-sharing multiple-employer defined benefit OPEB plan.

A retiree may continue coverage with the MUSEGBP if the retiree is eligible to receive State Retirement Benefit for Teachers Retirement System (TRS) or the Public Employee Retirement System (PERS) at the time they leave their employment with MUS.

Retirees who are in the Optional Retirement Plan (ORP) (through TIAA-CREF) or any other defined contribution plan must have worked five or more years and be age 50, or have worked 25 years with the MUS to be eligible for Retiree insurance benefits.

An eligible Retiree must make arrangements with their campus Human Resources/Benefits Office to continue coverage as a Retiree on a self-pay basis within 63 days of retirement.

Additional benefit options are available for Non-Medicare Retirees, Medicare Retirees, Spouse coverage, and Spouse Coverage Options after the Death of Retiree.

Copies of the plan and additional benefit options can be obtained from the Montana University System.

There are no required contribution rates of the 13 active participants in the plan.

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

The actuarial valuation was prepared as of June 30, 2012. FVCC has a phase 2 June 30, 2009 implementation date for GASB #45. The information reported below is based on the June 30, 2012 actuarial valuation.

<u>All Participants at FVCC</u>	<u>June 30, 2012</u>
Accrued Liability	\$ 2,365,335
Annual Required Contribution (ARC)	\$ 267,531
Participant Count	194
Actuarial Value of Assets	\$ -
Interest / Discount Rate	4.25%
Projected payroll increases	2.5%
Participation	
Future retirees	55%
Future eligible spouses	60%

Early Retirement Incentive Liability

In 2009 eligible employees were offered a choice between two Early Retirement Incentives. Choice #1 offered individual retiree medical insurance benefits up to \$500/month for a total of five years. Choice #2 offered a cash incentive in place of the above health insurance benefit. The amount will not exceed the amount the retiree health insurance would have cost and is not to exceed \$5,000 per year.

Five employees accepted the early retirement incentive in fiscal year 2009. Assuming a projected increase in health insurance premiums of 8.10% and a present value discount rate of 2.56%, FVCC recognized a total liability of \$55,633 in fiscal year 2011. As of June 30, 2012, the balance of the liability is reported at \$39,104.

NOTE 8. LOCAL RETIREMENT PLANS

Deferred Compensation Plan

The College offers its employees several types of deferred compensation plans. These plans are created in Internal Revenue Service Code Sections 403(b), 457(b) and 401(a) and are available for the use of Governmental and/or Educational employers. Similar type plans are created under Internal Revenue Service Code Section 401(k) for private and/or corporate employers. The plans permit employees the ability to defer a portion of their salary until future years and be eligible for employer matching under certain criteria. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plans are:

403(b) – FVCC Employees Retirement Saving Plan. This plan is administered by VALIC and is a defined contribution plan. All employees of the college are eligible for participation. Participation in this plan is optional and employees are eligible for matching contributions.

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

457(b) – Section 457(b) Deferred Compensation Plan. This plan is administered by VALIC and is a defined contribution plan. All Employees are eligible to participate in the plan, currently there are two employees in the plan. Employees are allowed to contribute after year 2006 the dollar amount of up to \$ 15,000.00. The College is not required to make a matching contribution.

401(a) – Flathead Valley Community College 401(a) Exclusive Benefit Plan. This plan is administered by VALIC and is a defined contribution plan. Only the President is eligible for participation. Participation in this plan is optional and the employee is eligible for employer contributions.

NOTE 9. RELATED PARTY TRANSACTIONS

Related Party Transactions Component units

The following schedule presents significant transactions between the primary government and its component units during the year ended June 30, 2012:

<u>Component Unit</u>	<u>Significant Transactions</u>
Flathead Valley Community College Foundation Donated	<u>\$654,688</u>

NOTE 10. RISK MANAGEMENT

The College faces considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) workers' compensation, i.e., employee injuries, and (f) medical insurance costs of employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance Policies:

Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employees torts, and professional liabilities. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the College has no coverage for potential losses from environmental damages.

NOTE 11. SUBSEQUENT EVENTS

Rebecca Chaney Broussard Center for Nursing and Health Science

The Rebecca Chaney Broussard Center for Nursing and Health Science has been substantially completed. Anticipated occupancy is scheduled for April 8th 2013.

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Flathead Valley Community College Foundation is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Flathead Valley Community College Foundation assists the Flathead Valley Community College in achieving its mission to provide affordable and accessible comprehensive, quality, student-centered academic preparation and innovative vocational training programs. The mission of the Foundation is to assist the College with fundraising and to promote community awareness of campus needs to increase the flow of resources to support excellence in education. The primary sources of revenue for the Foundation are from contributions and investment income.

Basis of Accounting

The Foundation prepares its financial statements in accordance with generally accepted accounting principles, which involves the application of accrual accounting; whereby revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Cash and Cash Equivalents

For financial statement purposes, the Foundation considers all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents. The components of cash and cash equivalents as of December 31, 2012, are as follows:

	<u>2011</u>
Cash in bank and on hand	\$ 2,279,130
Endowment money market investments	<u>264,418</u>
	\$ <u>2,543,548</u>

Classification of Net Assets

The Foundation classifies contributions as unrestricted, temporarily restricted, and permanently restricted net assets in accordance with donor stipulations. Permanently restricted net assets consist of endowed gifts where donors have specified investment in perpetuity to generate income for specified restricted or unrestricted purposes. Temporarily restricted net assets include gifts restricted as to purpose or time. When a donor restriction expires (time restriction ends, purpose restriction is accomplished, or payments are received for unconditional promises to give), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. All expenses are reported in unrestricted net assets.

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-Kind Donations

The Foundation seeks and receives the volunteer efforts of many members of the community in attaining its goals. Only services for which the donor has specialized skills and would ordinarily receive compensation are considered donations in-kind. All donated goods are considered gifts in-kind and are valued at their fair market value at the time of donation. The value of donated services are determined by the donors as the usual fees they would receive for such services in the normal course of their business.

Donors are provided receipts showing estimated fair market value for their in-kind donations; these values are established by the donors. Donated goods and services are recorded in the financial statements as unrestricted revenue and as a corresponding unrestricted functional expense or capitalized assets.

Investments

The investments are carried at fair value, and unrecognized gains and losses are reflected in the statement of activities. All gains and investment income are allocated to unrestricted, temporarily restricted, or permanently restricted net assets based on the nature of the restrictions, if any, on the invested assets. Investment income earned from temporarily restricted or permanently restricted net assets that is used to pay scholarships within the same reporting period is accounted for as unrestricted.

Pledges Receivable

Pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectable amounts through a provision for bad debt expense and an adjustment to a valuation allowance, if applicable, based on its assessment of the current status of individual accounts. As of December 31, 2011, no valuation allowance has been established as management does not anticipate any material loss with respect to the remaining balance of pledges receivable.

Property and Equipment

Property and equipment are recorded at cost when purchased or at fair value at the date of the gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, ranging from five to seven years.

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions, including unconditional promises to give, are recognized as unrestricted, temporarily restricted, or permanently restricted revenue in accordance with donor stipulations. Unconditional promises to give with payments due in future periods are recognized as temporarily restricted revenue. Restricted contributions whose restrictions are met within the same reporting period are accounted for as unrestricted support. Unconditional and conditional promises to give are valued at the present value of amounts expected in future years, provided that reliable information is available. Donors include individuals and businesses who principally reside in Flathead County.

Assets Held under Split-Interest Agreements

Charitable gift annuity agreements require periodic payment of either the income earned or a fixed percentage of the assets to designated beneficiaries and terminate either at a specific time or upon the death of the designated individual. A liability for each gift annuity, where the Foundation is a trustee, is established and calculated as the present value of future payments to be made to the designated beneficiaries. Upon termination, the remaining assets of the annuity are then available for use by the Foundation to be used in accordance with the donor's intent. The Foundation uses an actuarial approach to determine both the contribution and liability amounts to be recognized. No gift annuities were entered into by the Foundation during December 31, 2011. The discount rate varied was 3.8% for the Foundation's entire portfolio of gift annuities as of December 31, 2011.

Income Tax Status

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The income tax years of 2008 to 2010 remain open to examination by the federal taxing authorities.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 2 -- INVESTMENTS

The Foundation invests primarily in U.S. Treasury bonds, government agency bonds, mutual funds, equity securities, and corporate debt securities. At December 31, 2011, investments are comprised of the following:

	<u>2011</u>	
	Amortized	
	<u>Cost</u>	<u>FMV</u>
Government and agencies	\$ 199,776	\$ 206,995
Corporate bonds and bond funds	1,423,600	1,472,064
Equity securities and mutual funds	1,812,263	1,972,390
Notes receivable	<u>24,651</u>	<u>24,651</u>
	<u>\$ 3,460,290</u>	<u>3,676,100</u>

NOTE 3 -- FAIR VALUE MEASUREMENTS

The Foundation follows FASB ASC 820, which provides a framework for measuring fair value. FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

FASB ASC 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. The three levels are defined as follows:

Level 1 - observable inputs that are based upon quoted market prices for identical assets or liabilities within active markets.

Level 2 - observable inputs other than Level 1 that are based upon quoted market prices for similar assets or liabilities, based upon quoted prices within inactive markets, or inputs other than quoted market prices that are observable through market data for substantially the full term of the asset or liability.

Level 3 - inputs that are unobservable for the particular asset or liability due to little or no market activity and are significant to the fair value of the asset or liability. These inputs reflect assumptions that market participants would use when valuing the particular asset or liability. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 3 -- FAIR VALUE MEASUREMENTS (CONTINUED)

Assets and liabilities itemized below were measured at fair value during the year ended using the market and income approaches. The market approach was used for Level 1 and Level 2. The income approach was used for Level 3.

		<u>Fair Value Measurements Using:</u>		
		Quoted Prices In Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2011:	<u>Fair Value</u>			
Investments	\$ 3,676,099	\$ 3,676,099	\$ -	\$ -
Pledges receivable	3,515,997	-	-	3,515,997
Deferred gift liability	97,982	-	97,982	-
	<u>\$ 7,290,078</u>	<u>\$ 3,676,099</u>	<u>\$ 97,982</u>	<u>\$ 3,515,997</u>

The table below presents a reconciliation of assets measured at fair value on a recurring basis using Level 3 inputs:

	<u>2011</u>
Balance at January 1	\$ 124,959
Pledge payments received	(1,236,321)
New pledges made by donors	4,635,659
Pledges written off	(8,300)
	<u>\$ 3,515,997</u>

NOTE 4 -- PLEDGES RECEIVABLE

Pledges receivable represent promises to give which have been made by donors but have not yet been received by the Foundation. Pledges which will not be received in the subsequent year have not been discounted, as the difference using the estimated rate of return approximates the recorded value. The Foundation estimates the allowance for uncollectible pledges at December 31, 2011, was zero. Total unconditional promises to give or grants receivable were as follows:

	<u>2011</u>
In one year or less	\$ 710,514
Between one year and five years	<u>2,805,483</u>
Total	<u>\$ 3,515,997</u>

NOTE 5 -- BOARD RESTRICTIONS

Unrestricted net assets include Board restricted cash and investments for various Foundation projects and other uses. Total Board restricted cash and investments at December 31, 2011 was \$200,779.

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 6 -- ENDOWMENT

The Board has established an endowment for the purpose of funding scholarships for students attending Flathead Valley Community College. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Montana Uniform Prudent Management of Institutional Funds Act ("MUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) any accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by MUPMIFA. In accordance with MUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 6 -- ENDOWMENT (CONTINUED)

- (1) The duration and preservation of the fund;
- (2) The purposes of the Foundation and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the Foundation; and
- (7) The investment policies of the Foundation.

Changes in Endowment Net Assets for the year ended December 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ _____ -	\$ 961,813	\$ 2,383,592	\$ 3,345,405
Investment return:				
Investment income	-	104,263	-	104,263
Investment management fees	-	(24,147)	-	(24,147)
Net appreciation (depreciation) (realized and unrealized)	_____ -	_____(145,968)	_____ -	_____(65,852)
Contributions	_____ -	_____ 178,751	_____ 270,839	_____ 449,590
Endowment net assets, end of year	\$ _____ -	\$ 1,074,712	\$ 2,654,431	\$ 3,729,143

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA at December 31, 2011 was \$2,654,431. There were \$1,074,712 in temporarily restricted net assets within the endowment fund at December 31, 2011.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to operations while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Organization must hold in perpetuity or for donor-specified period(s).

NOTE 7 -- SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 28, 2012, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

Flathead Valley Community College, Flathead County, Montana
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress
For the Year Ended June 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) nit Credit Cost Methc (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c)
July 1, 2009	\$ -	\$ 4,137,471	\$4,137,471	0%	\$ 11,078,458	37%
July 1, 2011	\$ -	\$ 2,365,335	\$2,365,335	0%	\$ 15,084,883	16%

SUPPLEMENTAL INFORMATION

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2012

STUDENT FINANCIAL AID MODIFIED STATEMENT
OF CASH RECEIPTS AND DISBURSEMENTS - UNAUDITED

	<u>PELL</u>	<u>CWS</u>	<u>SEOG</u>
Beginning Cash Balance	\$ (41,060)	\$ (14,349)	\$ -
Additions:			
Federal Advances	4,756,967	68,858	47,377
State Matching	<u>-</u>	<u>42,147</u>	<u>17,258</u>
Total Additions	<u>4,756,967</u>	<u>111,005</u>	<u>64,635</u>
Deductions:			
Distributions to Students	4,996,158	102,978	64,635
Administrative Expenses	<u>6,465</u>	<u>2,608</u>	<u>-</u>
Total Deductions	<u>5,002,623</u>	<u>105,586</u>	<u>64,635</u>
Net Change in Cash	<u>(245,656)</u>	<u>5,419</u>	<u>-</u>
Ending Cash Balance	\$ <u>(286,716)</u>	\$ <u>(8,930)</u>	\$ <u>-</u>

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
SCHEDULE OF FEDERAL EXPENDITURES
STUDENT FINANCIAL ASSISTANCE PROGRAMS - UNAUDITED
FOR YEAR ENDED JUNE 30, 2012

	<u>2012</u>
College Work Study	
Wages	\$ 60,831
Administrative Cost	<u>2,608</u>
Total College Work Study	\$ <u>63,439</u>
Supplemental Education Opportunity Grant Program	
Student Grants	\$ <u>47,377</u>
Pell Grant Program	
Student Grants	\$ <u>4,996,158</u>

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012

SCHEDULE OF FULL TIME EQUIVALENT - AUDITED

<u>Semester</u>	<u>Resident</u>	<u>WUE</u>	<u>Nonresident</u>	<u>Total</u>
Summer 2011	336.40	0.00	22.30	358.70
Fall 2011	1,666.40	3.30	53.50	1,723.20
Spring 2012	1,671.20	3.70	66.50	1,741.40

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA

FOR THE YEAR ENDED JUNE 30, 2012

SCHEDULE OF FUNCTIONAL CLASSIFICATION
OF OPERATING EXPENSES - AUDITED

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation and Maint of Plant	Auxiliary	Total
Salaries	\$ 5,011,788	\$ 176,890	\$ 1,326,066	\$ 1,789,678	\$ 1,711,183	\$ 253,497	\$ 465,531	\$ 545,312	\$ 11,281,945
Benefits	1,640,686	45,866	433,109	567,363	613,991	177,760	190,155	134,008	3,802,938
Travel	76,115	4,645	66,740	44,544	71,122	13,834	-	3,934	280,934
Supplies	578,587	40,775	39,889	65,157	387,258	118,616	130,944	1,056,835	2,418,061
Contracted Services	467,366	92,358	103,922	73,575	473,688	34,211	850,992	149,592	2,245,704
Bond Issue Exp	-	-	-	-	-	-	10,903	-	10,903
Bad Debt Exp	-	-	-	-	142,318	-	-	-	142,318
Non Capitalized Equip	149,792	-	57,257	15,992	26,025	4,937	497,042	7,175	758,220
Scholarships and Grants	9,770	500	170,360	1,269	-	12,131,346	-	-	12,313,245
Other Operating Expense	1,768	10,681	88,523	18,946	94,151	25,256	-	32,814	272,139
Depreciation Expense	-	-	-	-	-	-	1,680,748	-	1,680,748
	<u>\$ 7,935,872</u>	<u>\$ 371,715</u>	<u>\$ 2,287,866</u>	<u>\$ 2,576,523</u>	<u>\$ 3,519,736</u>	<u>\$ 12,759,458</u>	<u>\$ 3,826,315</u>	<u>\$ 1,929,670</u>	<u>\$ 35,207,155</u>

SINGLE AUDIT SECTION

Flathead Valley Community College, Flathead County, Montana
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Fiscal Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Federal Expenditures June 30, 2011
<u>U.S. Department of Agriculture</u>				
<i>Passed through Montana Office of Public Instruction:</i>				
Summer Food Service Program for Children	10.559	N/A	\$ 12,456	\$ 4,636
Summer Food Service Program for Children	10.559	N/A	\$ 2,187	2,187
Total U.S. Department of Agriculture				\$ 6,823
<u>U.S. Department of Labor</u>				
<i>Direct:</i>				
WIA Pilots, Demonstrations, & Research Projects	17.261	EA-21146-10-60-A-30	\$ 100,000	\$ 81,975
Community Based Job Training Grants	17.269	CB-20579-10-60-A-30	\$ 2,951,196	574,606
Total U.S. Department of Labor				\$ 656,581
<u>National Science Foundation</u>				
<i>Direct:</i>				
Engineering Grants	47.041	ECC-1037762	\$ 149,662	\$ 48,102
Education and Human Resources	47.076	DUE-0736662	\$ 119,318	8,226
Total U.S. Department of Justice				\$ 56,328
<u>U.S. Department of Education</u>				
<i>Direct:</i>				
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	P007A102416	\$ 38,670	\$ 34,650
Higher Education Institutional Aid (Title III)	84.031	P031A090004	\$ 1,997,367	387,799
Federal Work Study Program (FWS)	84.033	P033A102416	\$ 52,723	52,723
TRiO - Student Support Services	84.042	P042A101232	\$ 333,579	242,668
TRiO - Student Support Services	84.042	P042A101232	\$ 333,579	48,889
TRiO - Upward Bound	84.047	P047A080807-10A	\$ 321,028	117,202
Trio - Upward Bound	84.047	P047A080807-11	\$ 296,334	165,222
Federal Pell Grant	84.063	P063P102851	\$ 5,080,393	4,451,107
Federal Pell Grant	84.063	P063P092851	\$ 4,202,189	248,574
Fund for the Improvement of Postsecondary Education	84.116	P116Z080269	\$ 268,231	24,219
Federal Direct Student Loans	84.268	P3268K112851	\$ 6,247,770	5,965,726
Federal Direct Student Loans	84.268	P3268K102851	\$ 409,989	411,559
Academic Competitiveness Grants	84.375	P375A102851	\$ 28,819	28,819
<i>Passed through Montana Office of Public Instruction:</i>				
Adult Education Basic Grants to States	84.002	58-65503-56-11-BG	\$ 79,529	79,529
<i>Passed through the Office of Commissioner of Higher Education:</i>				
Career and Technical Education - Basic Grants to States	84.048	PL 109-270	\$ 211,076	199,971
Tech Prep Education	84.243	Pathway	\$ 53,700	53,386
College Access Challenge Grant Program	84.378	P378A100021	\$ 100,000	100,000
Total U.S. Department of Education				\$ 12,612,043
<u>U.S. Department of Health and Human Services</u>				
<i>Passed through Montana Department of Health and Human Services:</i>				
Child Care and Development Block Grant	93.575	1102HIED0008	\$ 27,210	\$ 24,754
<i>Passed through Montana Tech UM & Bellevue College:</i>				
ARRA-Health Information Technology Professionals in Health Care	93.721	ARRA #90CC07701	\$ 27,500	4,624
Total U.S. Department of Health and Human Services				\$ 29,378
Total Federal Financial Assistance				\$ 13,361,153

N/A = Not Applicable or Not Available

Flathead Valley Community College, Flathead County, Montana
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Fiscal Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Federal Expenditures June 30, 2012
<u>U.S. Department of Agriculture</u>				
<i>Direct:</i>				
Secondary & Two Year Postsecondary Agriculture Education Challenge Grants	10.226	2011-38414-30498	\$ 134,862	\$ 54,648
<i>Passed through Montana Office of Public Instruction:</i>				
Summer Food Service Program for Children	10.559	N/A	\$ 8,438	8,438
Total U.S. Department of Agriculture				\$ 63,086
<u>U.S. Department of Labor</u>				
<i>Direct:</i>				
WIA Pilots, Demonstrations, & Research Projects	17.261	EA-21146-10-60-A-30	\$ 100,000	\$ 18,025
Community Based Job Training Grants	17.269	CB-20579-10-60-A-30	\$ 2,951,196	912,291
Total U.S. Department of Labor				\$ 930,316
<u>National Science Foundation</u>				
<i>Direct:</i>				
Engineering Grants	47.041	ECC-1037762	\$ 149,662	\$ 5,294
Education and Human Resources	47.076	DUE-0736662	\$ 198,305	21,497
Total U.S. Department of Justice				\$ 26,791
<u>Small Business Administration</u>				
<i>Passed through Montana Department of Commerce:</i>				
Small Business Development Centers	59.037	12-51-011	\$ 47,651	\$ 23,826
Total Small Business Administration				\$ 23,826
<u>U.S. Department of Education</u>				
<i>Direct:</i>				
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	P007A102416	\$ 38,670	\$ 4,020
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	P007A112416	\$ 51,773	43,357
Higher Education Institutional Aid (Title III)	84.031	P031A090004	\$ 1,997,367	419,846
Federal Work Study Program (FWS)	84.033	P033A102416	\$ 50,589	8,930
Federal Work Study Program (FWS)	84.033	P033A112416	\$ 63,439	54,509
TRiO - Student Support Services	84.042	P042A101232	\$ 333,579	39,962
TRiO - Student Support Services	84.042	P042A101232	\$ 323,238	196,707
Trio - Upward Bound	84.047	P047A080807-11	\$ 296,334	119,648
Federal Pell Grant	84.063	P063P102851	\$ 5,080,393	386,232
Federal Pell Grant	84.063	P063P112851	\$ 4,622,663	4,609,926
Federal Direct Student Loans	84.268	P268K112851	\$ 6,247,770	280,474
Federal Direct Student Loans	84.268	P268K122851	\$ 6,247,770	5,679,990
<i>Passed through Montana Office of Public Instruction:</i>				
Adult Education Basic Grants to States	84.002	58-6503-56-11-BG	\$ 97,586	97,586
<i>Passed through the Office of Commissioner of Higher Education:</i>				
Career and Technical Education - Basic Grants to States	84.048	PL 109-270	\$ 210,144	206,924
Tech Prep Education	84.243	Pathway	\$ 36,968	38,968
College Access Challenge Grant Program	84.378	P378A100021	\$ 100,000	100,000
U.S. Department of Education				\$ 12,287,079
<u>U.S. Department of Health and Human Services</u>				
<i>Passed through Montana Department of Health and Human Services:</i>				
Child Care and Development Block Grant	93.575	1102HIED0008	\$ 27,086	\$ 20,365
<i>Passed through Montana Tech UM & Bellevue College:</i>				
ARRA-Health Information Technology Professionals in Health Care	93.721	ARRA #90CC07701	\$ 27,500	3,000
Total U.S. Department of Health and Human Services				\$ 23,365
<u>Corporation for National and Community</u>				
<i>Passed through University of Montana:</i>				
Learn and Serve America - Higher Education	94.005	PG-11-67348-04	\$ 33,339	\$ 1,472
Learn and Serve America - Higher Education	94.005	PG-12-67348-04	\$ 32,435	14,883
Total U.S. Department of Health and Human Services				\$ 16,355
Total Federal Financial Assistance				\$ 13,370,818

N/A = Not Applicable or Not Available

FLATHEAD VALLEY COMMUNITY COLLEGE

FLATHEAD COUNTY, MONTANA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2011 and 2012

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Flathead Valley Community College, Flathead County, Montana, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

Board of Trustees
Flathead Valley Community College
Flathead County
Kalispell, Montana

We have audited the financial statements of the business-type activities, the discretely presented component unit, and the aggregate remaining fund information of Flathead Valley Community College, Flathead County, Montana, as of and for the year ended June 30, 2012, which collectively comprise the Flathead Valley Community College's basic financial statements and have issued our report thereon dated March 29, 2013. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Other auditors audited the financial statements of the Flathead Valley Community College Foundation as described in our report of the Flathead Valley Community College, Flathead County Montana's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

Management of the Flathead Valley Community College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Flathead Valley Community College internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Flathead Valley Community College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Flathead Valley Community College's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or

material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Flathead Valley Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Trustees, the Montana Department of Administration, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Denning, Downey and Associates, CPA's, P.C.

March 29, 2013

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees
Flathead Valley Community College
Flathead County
Kalispell, Montana

Compliance

We have audited Flathead Valley Community College, Flathead County, Montana, compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Flathead Valley Community College's major federal programs for the years ended June 30, 2011 and 2012. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion of the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, Flathead Valley Community College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2011 and 2012.

Internal Control Over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of

expressing an opinion on compliance and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Board of Trustees, the Montana Department of Administration, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Denning, Downey and Associates, CPA's, P.C.

March 29, 2013

FLATHEAD VALLEY COMMUNITY COLLEGE

FLATHEAD COUNTY, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Years Ended June 30, 2011 and 2012

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued	<i>Unqualified</i>
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses	None Reported
Type of auditor’s report issued on compliance for major programs:	<i>Unqualified</i>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.268, 84.375, 84.063, 84.033, 84.007	Student Financial Aid Cluster
17.269	Community Based Job Training
84.031	Higher Education Institutional Aid
84.048	Perkins Loan
84.042, 84.047	TRiO Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Section II – Financial Statement Findings

There were no financial statement finding or questioned costs reported.

Section III – Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported.

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Board of Trustees
Flathead Valley Community College
Flathead County
Kalispell, Montana

The prior audit report contained one recommendation. The action taken on each recommendation is as follows:

<u>Recommendation</u>	<u>Action Taken</u>
Cash Control – Early Childhood Center	Implemented

Denning, Downey and Associates, CPA's, P.C.

March 29, 2013